FINANCIAL footnotes

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Regular Investing
Helps Absorb Market Shocks

At the heart of every bumpy stock market period lies potential opportunity for patient, risk-tolerant investors. The more volatile the market, the better **dollar-cost averaging**[1] works. It can help investors overcome the volatility of the market and sometimes even profit from the market's roller coaster periods. And happily, dollar-cost averaging is a built-in aspect of your retirement savings plan.

It's about shares

Many people don't realize that when they buy into their Plan's investment options, they are buying shares of ownership. In the same way that a farmer's wealth might be expressed in acres of land owned, your retirement plan wealth is represented by the number of units or shares you own (times the price of each share). All else being equal, owning more shares is better. One way to wind up owning more shares is to take advantage of share price declines (bad markets).

Dollar-cost averaging makes a smoother ride

Dollar-cost averaging simply means that a person invests a fixed dollar amount on a regular basis over time, such as your automatic contribution to your Plan. With stock prices moving unpredictably, chances are that next payday when you make your contribution, prices will be down. Therefore, your contribution will be able to buy more shares when the market falls and investment option share prices also fall. In that moment, you'll be enjoying the potential benefits of dollar-cost averaging. When you invest the same amount at regular intervals, you automatically buy more shares when prices are low, and when prices are up, you buy fewer of those "expensive" shares. Over time, greater market volatility could mean your **average cost per share** may tend to be lower.

Patient investors who hold tight and continue to invest regularly will have more units/shares.

Buy your shares on sale

In fact, the more volatile the market and the more extreme the price fluctuations, the more you may benefit in the long run from dollar-cost averaging. The more often prices make large shifts, the more frequently you could have the opportunity to buy at low prices. And with dollar-cost averaging, you avoid trying to time the market (a risky practice). You can avoid the worry of how to avoid a market correction, and reduce the risk that you'll invest all your money right before a market downturn.

Sit back and relax

As a long-term investor, it's smart not to get too anxious when the value of your investment options drop over a few months' time. In fact, looking back in history, some bad markets last for years. But eventually all market cycles end, bad ones too. When investment option values begin to climb again, as they historically have over time, the patient investor who held tight and continued to invest regularly will have more shares (thanks to low prices for a while and dollar-cost averaging) to enjoy the market's next push upward. So the next time you hear that the markets fell, or the Dow is down, remember dollar-cost averaging. Your next Plan contribution will be scooping up more shares for your retirement account.

Keep in mind that dollar-cost averaging can't guarantee a profit or protect against a loss in a declining market.

Dollar-Cost Averaging Example

Jenny is paid once a month and contributes to her Plan. One of the options she's chosen is the ABC Stock Fund. The table below shows the shares purchased for Jenny's account of this Fund each paycheck. The share price goes up and down with the market over the 4 month period, and Jenny ends up with 31 shares of the Fund.

	Amount Invested	Share Price	# of Shares
Jan 31	$100	$10.00	10
Feb 28	$100	$12.50	8
Mar 31	$100	$20.00	5
Apr 30	$100	$12.50	8
Total	**$400**	**$55.00**	**31**

Now, we can compare the **average price per share** versus the **average cost per share**. To find the average price per share, divide the sum of the prices, $55.00, by the number of purchases made, 4. This is $13.75 per share. To find the average cost per share, divide the total amount invested, $400, by the number of shares purchased, 31. **This is lower at $12.90 per share.**

Let's look at it another way ...

If Jenny tried to "time" the market with the entire $400, she might have bought on January 31 at $10.00 a share and ended up with 40 shares instead of 31. But she might not have purchased shares until March 31 at $20.00 a share and ended up with only 20 shares. This is "timing" risk.

Focus on "Fixed" Investments

With the stock market downturn recently marking its three-year anniversary, it is not surprising participants seeking "safe" investments are looking at fixed income investments. There are many types of investments within this broad classification including: guaranteed funds, stable value funds, bond funds, and money market funds. We will discuss these investment types as well as the potential risks and returns of various fixed income funds.

■ **Guaranteed Funds:** These funds are issued by an insurance company, provide a stated rate of return and guarantee against losses due to market conditions. Interest rates on guaranteed accounts historically (and currently) are higher than money market funds and have become popular in the past few years. The guarantee is generally made from highly rated insurance companies.

■ **Stable Value Funds:** Stable value investments are typically a collection of guaranteed funds issued by insurance companies or, they may invest directly in high quality investments such as U.S. Government securities. Like guaranteed accounts, stable value funds provide a guarantee against losses due to market conditions. Interest rates on most stable value funds historically have exceeded money market funds.

■ **Bond Funds:** Bonds are "IOUs" whereby the issuer of the bond (government or corporation) promises to re-pay the bondholder as of a certain date with interest. Bond funds are simply a collection of bonds and recently many have produced solid returns to investors. However, even sophisticated investors struggle with understanding the returns bond funds provide. These returns come from two sources. First there is the interest rate paid on the bonds — the easy part. Second, there is price appreciation or depreciation of the bonds.

The price of the bond(s) generally fluctuates because of interest rates and credit quality. As interest rates fall, the price goes up, as interest rates rise, the price goes down. Credit quality comes into play when a company (i.e. WorldCom or Enron) struggles to pay the bondholders. Those bonds lost value as the company's ability to re-pay the IOU became in doubt.

While in most years bond funds provide positive returns, due to potential price fluctuations, that is not always the case. Based on the most widely watched bond index, the Lehman Aggregate Bond Index, bonds provided negative returns in both 1994 and 1999. These losses generally occurred due to rising interest rates. In fact, it is because of today's historically low interest rates and the predictions of some that these rates could move up in 2003, that many investors are concerned that 2003 could provide substandard or even negative returns for many bond funds.

■ **Money Market Funds:**[2] These funds are similar to bond funds in the sense that they invest in "IOUs" from governments and/or corporations. However, since the investments have short-term maturities and the issuing government or corporation must re-pay them quickly, the bond price doesn't fluctuate with interest rates and rarely (but it's not guaranteed) is there price depreciation due to a drop in credit quality. That's the good news. The bad news is most money market funds are currently experiencing very low yields. And on a longer-term basis, money market funds rarely provide higher returns than other fixed income investments.

While all types of fixed income funds have become popular in the recent "bear" stock market, as illustrated above, not all fixed income funds are created equal. And a risk with all types of fixed investments is that their return may not outpace the rate of inflation. Bond funds have done well in recent years, but there is concern that when interest rates move up, these returns will not be duplicated. Money market funds generally protect investors from market fluctuations, but the returns are historically the lowest. Lastly, guaranteed funds and stable value funds provide a guarantee of principal and tend to provide interest rates in excess of money market returns.

Web site Enhancements

Have you visited the Web site lately? There are several new features that make managing your account more convenient. In addition to viewing your account information, asset allocation and investment options, you can now visit the Web site to:

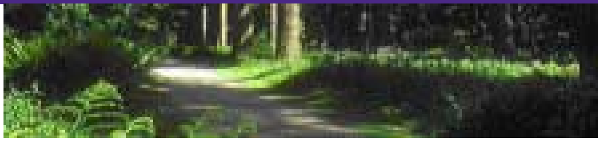
- change and view your deferral
- change and view your beneficiary
- enroll in the 457 Program

Log on to **www.benefitscorp.com/countyoforange** to experience these new features.

Access to KeyTalk® and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance, or other reasons.

ATTEND A SEMINAR TO EXPAND YOUR FINANCIAL KNOWLEDGE

Upcoming Seminars



BenefitsCorp and your County of Orange Defined Contribution Program offer a variety of educational seminars on financial topics throughout the year. They are meant to provide you with a broad-based understanding of your plan and increase your knowledge of investment terms and concepts from the most basic to quite advanced. They also provide you with the necessary tools to manage your account in a manner which promotes long-term financial security. Each quarter will feature two different seminar topics - for a current schedule or directions, log on to **www.benefitscorp.com/countyoforange** and click on the seminar link. During May and June the following seminars will be offered:

Tax Credit

You'll learn about the new tax benefit associated with your Plan and how it's designed to encourage you to contribute more to your plan. And for those of you who have not yet been able to afford to save, this tax credit may be just the incentive you need to get started.

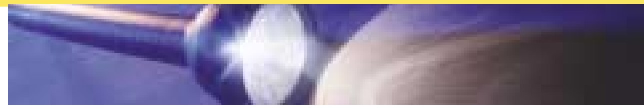
Date/Time	Location
Wed., May 7th 12 - 1pm	**SSA/Laguna Hills** 23330 Moulton Parkway, Room B213 Laguna Hills
Thurs., May 15th 12 - 1pm	**SSA/West Regional Center** 6100 Chip Avenue, Room 332 Cypress
Wed., May 21st 12 - 1pm	**County Executive Office** Hall of Administration 10 Civic Center Plaza Board Hearing Room Santa Ana
Tues., June 3rd 12 - 1pm	**SSA/Braden Court** 1337 Braden Court Auditorium Orange
Wed., June 4th 12 - 1pm	**SSA/SARC** 1928 S. Grand, Room 110 Santa Ana
Thurs., June 5th 12 - 1pm	**County Executive Office** Hall of Administration 10 Civic Center Plaza Board Hearing Room Santa Ana

How to Use Plan Services

This seminar covers all of the tools available to you for managing your account, including: how to read your statement, how to use KeyTalk®, a Web site demo and more. With BenefitsCorp as the new plan administrator, this is a great time to become familiar to all the great resources available to you.

Date/Time	Location
Thurs., May 1st 12 - 1pm	**County Executive Office** Hall of Administration 10 Civic Center Plaza Board Hearing Room Santa Ana
Fri., May 9th 11 - 12pm & 12 - 1pm	**West Justice Center** 8141 13th Street Jury Assembly Room Westminster
Thurs., June 12th 12 - 1pm	**County Executive Office** Hall of Administration 10 Civic Center Plaza Board Hearing Room Santa Ana
Fri., June 13th 11:30 - 12:30pm 12:30 - 1:30pm	**Harbor Justice Center** 4601 Jamboree Rd., Jury Selection Room Newport Beach

Retirement In Sight



Rated PG: Offering your aging parents support and guidance with their financial affairs

As many people reach age 50 and beyond, caring for an aging parent will become a key consideration. At some point it will become almost inevitable: your parents are going to need your help with money and health issues. If your parents are advancing in age (early 70's or older), it may be a good time to offer a little help and guidance with regards to their financial affairs.

When it comes to discussing personal financial affairs with your parents, financial advisors often suggest that you start slowly and work up to more detailed conversations. However, it all depends on your parents. Some may be more open and forthcoming. Others may view sharing this information as a loss of independence. The important thing is to open up the channels of communication as soon as possible. One or both of your parents could become seriously ill or incapacitated. In addition, seniors may be more susceptible to scams and frauds. And, at some point, your parents may become unable to keep up with their financial affairs as their physical and mental abilities diminish. Waiting until a crisis occurs can cause much heartache and stress (not to mention financial losses!).

Where should you start? Your first move should be a simple heart-to-heart conversation. Explain to them that it will be easier for you to help them later (when they really need it) if they share details about their finances with you now. If your parents are uncomfortable with this, then at the very least they should be willing to tell you where they keep their important financial records and documents (just in case of an emergency).

Here's a quick checklist of important information you should know about your parents:

- Do they have a will? If so, where is it kept?
- Do they have a living will or medical directives so someone can speak for them should they become incapacitated?
- Do they have a durable power of attorney so someone can handle their financial affairs if needed?
- Social Security numbers.
- Details of any insurance policies, including health, life and long-term care.
- Health records.
- Debts and payments.
- Income, including retirement plans, Social Security, annuities, dividends, etc.
- Savings and investments, including bank account numbers and names of financial institutions.
- Tax returns.
- Location of safe deposit boxes and keys to boxes.
- Names and phone numbers of legal advisors, doctors, attorneys, insurance agents, accountants, etc.

When it comes to guiding your parents through the many financial and health issues they will face, it's important to keep in mind a few things:

- Always respect their rights and wishes.
- Give them as much control as possible.
- Keep their money separate from yours.
- Involve them as much as possible.
- Keep them informed.

For account or investment-related issues, contact:

www.benefitscorp.com/countyoforange

KeyTalk® (866) 457-2254

1 Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue a dollar-cost averaging plan during periods of low price levels.

2 An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.

For more information bout available investment options, including fees and expenses, you may obtain applicable prospectuses and/or disclosure documents from your registered representative, Read them carefully before investing.

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Please Note: This newsletter does not constitute investment or financial planning advice.

We'd like to hear from you.
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